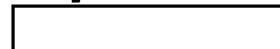


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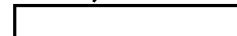


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State Department review completed

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PORTUGAL

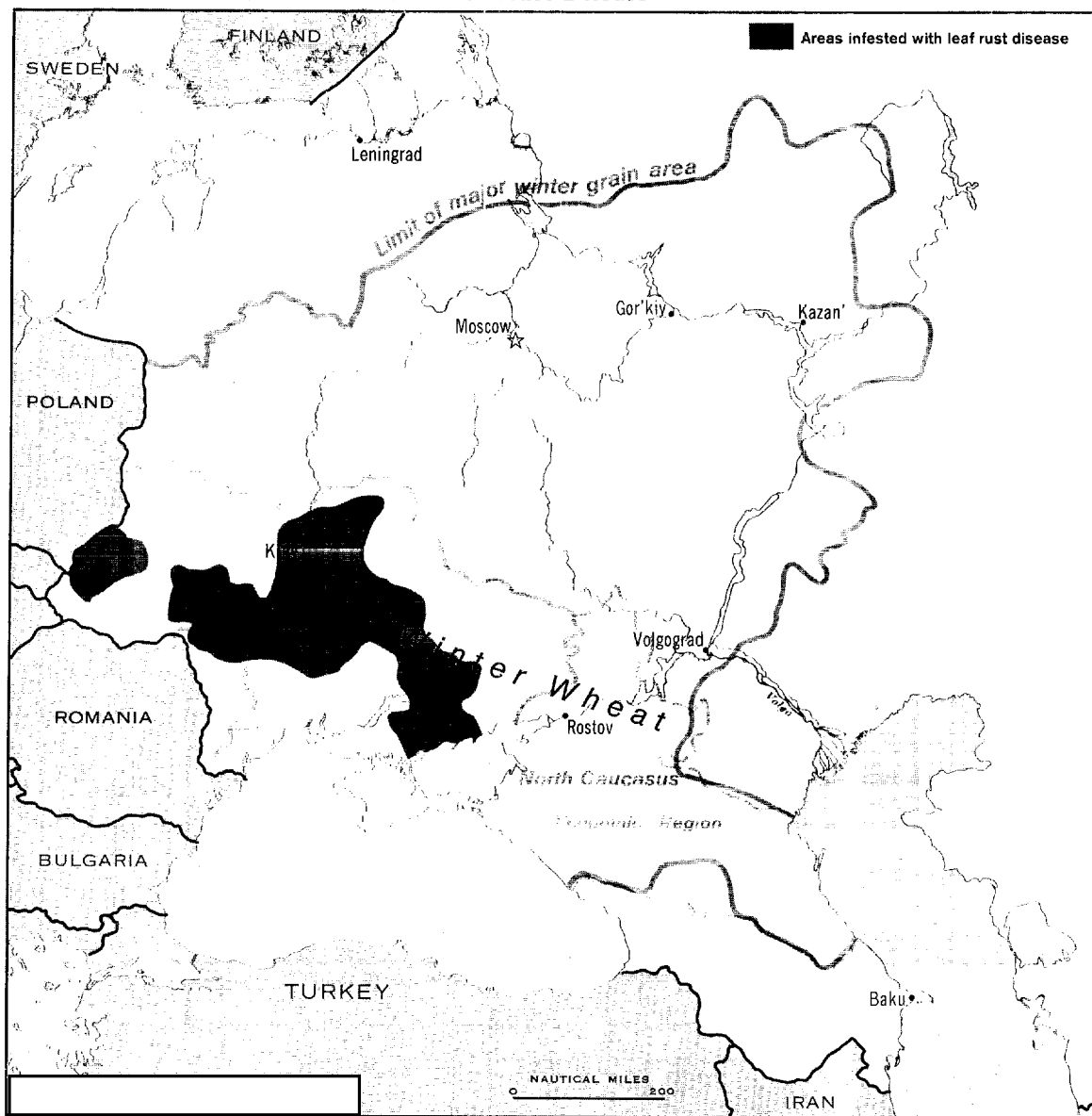
Junta member General Galvao de Melo plans to form a centrist political party whose aim would be to elect General Spinoia as permanent president and himself as vice president. The two have the support of fellow junta member and Armed Forces Chief of Staff General Costa Gomes; it is not known, however, what other groups in the military support the move. General Galvao de Melo will continue his television talks, avowedly to instill a political awareness and to prepare the population for democratic processes after nearly 50 years of authoritarian rule. He will leave the junta to campaign at an opportune time, and has denied rumors that General Spinoia would call a snap election within a month; when the junta assumed power, elections were promised by March 1975.

Most of the political parties that have surfaced are leftist and include various brands of socialists, communists, and small militant leftist groupings. The Portuguese Communist Party, led by Minister Without Portfolio Alvaro Cunhal, is the best organized and has adopted a strategy of restraint to gain respectability. The model behavior of the Communists has made it difficult for the Portuguese Socialist Party under Foreign Minister Mario Soares to distance itself from them on most issues. In addition, the Socialists have not shown any signs of improving their organization, which may be due in part to the fact that Soares is preoccupied with his duties as foreign minister.

General Galvao de Melo claims to see the need for a centrist party to provide an alternative and a vehicle to politically educate the Portuguese people. Otherwise, the population may decide they had been misled by the previous regime concerning the evils of communism and might now support that party. President Spinoia agrees and has recently toured military bases to alert the troops of extremist attempts to use the services for political purposes.

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Winter Wheat Areas Infested With Leaf Rust Disease



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USSR

An extensive outbreak of wheat leaf rust disease threatens to reduce the output of Soviet winter wheat by as much as 20 percent. Should the disease move northward and eastward, the spring wheat crop also may suffer considerable damage. Wet weather in the USSR over the past two months has intensified the spread of the disease, which is carried by wind-borne spores.

As of late May, [redacted] rust had been detected in at least seven Ukrainian oblasts. Favorable conditions for rust development continued through June, and heavy rust infection apparently has spread to other areas of the Ukraine. Rust is probably present in the Krasnodar and North Caucasus winter wheat areas as well; conditions there have been favorable for development of the disease. In fact, the disease could have spread from these areas into the Ukraine.

The outbreak was apparently caused by a virulent form of leaf rust that in 1973 heavily damaged two varieties of winter wheat that were previously resistant to rust. Two million hectares were affected last year.

The two main Soviet winter wheat varieties that comprise about 85 percent of the total area under cultivation--more than 16 million hectares--have at best only a moderate tolerance to the new leaf rust. About 75 percent of the Soviet spring wheat is also susceptible. Since substantial portions of spring wheat this year were planted very late, severe damage to the crop could occur if large quantities of rust spores are introduced into the planting areas. [redacted]

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JORDAN-FEDAYEEN-ISRAEL

Jordanian Prime Minister Rifai recently told US Ambassador Pickering that Amman has received a growing number of requests from Palestinian groups over the past three to four months to start discussions and contacts with them. Most recently, Rifai claimed, Syrian President Asad and Syrian Foreign Minister Khaddam talked at length with Palestine Liberation Organization leader Yasir Arafat, who sought Syrian help in opening a dialogue with Jordan.

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Jordan's position, he said, remains that it must be allowed to negotiate a West Bank disengagement with the Israelis, with the Palestinians conducting negotiations on other issues, such as Palestinian "rights" in Israel.

Despite this rather restricted Jordanian position, Rifai said he thought some basic "principles" could be agreed upon between the two sides. Husayn told the ambassador recently that he, nevertheless, remains extremely skeptical that much can be achieved in talks with the Palestinians.

The ambassador reports that Husayn and Rifai are concerned by the apparent lack of flexibility in the Israeli position regarding a West Bank settlement.

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BULGARIA

A power struggle in Bulgaria has brought down several top party leaders, but party boss Zhivkov's power does not appear to have been affected. The changes, made at a party plenum on July 3, seem to portend a tightening of economic and ideological controls and a tougher stance toward detente.

Ivan Abadzhiev, a leading advocate of detente, was the highest official to fall. He was removed both from candidate membership on the Politburo and as party secretary for agitation and propaganda. He had risen rapidly to become one of the top three men in the party hierarchy and was viewed as a possible successor to party boss Zhivkov.

Abadzhiev seems to have been a casualty of conservative rivals in the party and Moscow's demands that detente must be accompanied by increased discipline at home. Abadzhiev may have been the target of attacks earlier this year against people "in high positions" who hold mistaken views on detente. The charges were made by the party's ideological watchdog, Aleksandur Lilov, who was named a full member of the Politburo on July 3.

In addition to Abadzhiev, two other Politburo candidates were sacked. The trade union boss and the deputy prime minister for consumer goods were removed, presumably because of their inability to deal with the complex labor and economic areas within their jurisdictions.

The conservatives' position was strengthened by the appointment of the defense minister, army General Dobri Dzhurov, as a candidate member of the Politburo. The military has long been the center of conservative politics in Bulgaria, and has repeatedly warned about the dangers of detente.

Dzhurov's promotion may also spell a downturn in Bulgarian-Yugoslav relations. The military is a stronghold of Bulgarian nationalism and is opposed to the concessions Sofia has made to Belgrade on the touchy Macedonian problem.

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Further changes are probably in the offing. At a minimum, a new chief of the trade unions must be selected, and lower level changes in the party apparatus may occur as those closely tied to Abadzhiev are removed.

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ETHIOPIA

Emperor Haile Selassie has formally agreed to military supervision of the government and to acceleration of constitutional changes that will make him a figurehead leader.

The agreement, reached Wednesday after meetings between the Emperor and military representatives, provides for continuing close collaboration between the military and the government. The Emperor also agreed to the speedy introduction of a revised constitution, which is currently under consideration by a constitutional review committee appointed last March. The revised constitution is expected to establish a constitutional monarchy and make the cabinet responsible to Parliament, rather than to the Emperor.

The military scored a major gain by securing the appointment of General Aman Mikael Andom as the new chief of staff. Aman, who enjoys wide respect in the military, was advocating as long as ten years ago the political and social changes the military has now forced the Emperor to accept. His appointment signifies the further erosion of the influence of old guard senior officers.

Haile Selassie also agreed to grant amnesty to political prisoners and to all political exiles who left the country because of differences with the Emperor.

While the moderates who now dominate the military can enforce their views when they interfere in the political process, they are not a tightly knit group and therefore will not be able to provide firmness and conformity in the direction of the government. [REDACTED]

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ARGENTINA

Security officials believe that major violence is unlikely during the 10-day official period of mourning for Peron. They fear, however, that various terrorist groups that had been cowed by Peron's power and prestige will soon begin showing their muscle.

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Leaders of the Revolutionary Army never feared Peron and took every opportunity to challenge him. While they will not want to alienate the public by striking during the period of mourning, they undoubtedly will renew their activities soon--possibly as early as next week.

If the Revolutionary Army intensifies its campaign of violence, the military--particularly the army--is likely to be pulled deeper into an internal security role. In the past, the high command has preferred to remain on the periphery of the counterterror program. With the country now facing a period of great uncertainty, however, the armed forces may decide that there is little alternative to a more active security role.

Despite considerable rhetoric to the contrary, Peron apparently was never willing to pull out all stops in an antiterror campaign for fear of further damaging his relations with the left. Given the present delicate situation, however, those in effective political control will be forced into counterattacks to quash any terrorist offensives. This could produce a cycle of escalating violence on a wide scale.

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UNITED KINGDOM

Heavy demand for sterling to meet payments to oil producers has strengthened the pound in the face of Britain's record current-account deficit and bleak economic outlook.

Since the beginning of the year, the pound has strengthened relative to the dollar and most other currencies. Thursday, the pound closed in London at \$2.387, up from \$2.286 on March 1 when payments reflecting January 1 oil prices were begun.

Sterling payments to oil producers and to oil-producer escrow accounts for participation oil total about \$7 billion, so far this year. Most payments to the United Arab Emirates, Kuwait, and the smaller Persian Gulf states are made in sterling. These payments total about \$400 million monthly. About one fourth of Saudi Arabia's receipts--or \$500 million monthly--are in sterling.

Oil producers have converted only a small share of these sterling payments into other currencies. Their continued willingness to hold sterling, despite Britain's poor economic performance, is explained by several factors:

- The recently renegotiated British guarantee against exchange loss for sterling area countries.
- Extremely high interest rates in London and for sterling deposits in the Eurocurrency market.
- The lingering influence of British bankers in the Middle East.
- London's traditional importance as an international financial center.

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Sterling payments into escrow accounts similarly have not been converted because the oil companies are unwilling to speculate with escrow funds.

The share of oil payments made in sterling and the proportion of oil producers' assets held in sterling will probably decline over the next year or two. Despite British guarantees and high sterling interest rates, oil producers will eventually refuse to risk accumulating additional sterling assets. When this happens, the pound will fall to a level more in keeping with the real prospects facing the British economy.

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THAILAND

Prime Minister Sanya Thammasak declared a state of emergency in Bangkok early this morning and called in the army to restore order following a day and night of bloody rioting in the city's Chinatown. The rioters reportedly have been dispersed and an uneasy peace restored.

The Chinatown violence is evidently unrelated to the peaceful student demonstration against the US earlier yesterday. According to official estimates, 14 people have died thus far as a result of the violence.

The rioting does not appear to be politically motivated, but there may be repercussions for the Sanya government. The Thai military have been unhappy with the performance of Sanya's civilian regime, which they consider too weak. Military critics may point to the latest breakdown in order as evidence that a stronger military role is needed in the government.

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USSR-IRAN

Soviet-Iranian negotiations on the price Moscow pays for Iranian natural gas have broken down because Iran wants to increase the price of its natural gas exports from 30.7 cents per thousand cubic feet to 62 cents. Tehran's position is supported by an escalator clause contained in the gas agreement that ties gas prices to Iranian crude oil prices.

Tehran has notified Moscow and Bonn that it will not participate in the trilateral gas talks, which had been scheduled to begin on July 1. These discussions were to center on a "switch deal" calling for an increase in Iranian gas deliveries to the Soviet Union in return for an increase in Soviet shipments to West Germany.

Moscow reportedly sells its own natural gas to Western Europe at a price as high as 57 cents. The nearly 350 billion cubic feet of gas the USSR is expected to import in 1974 is an important supplement to dwindling supplies being delivered to Azerbaijan from the North Caucasus gas fields. Without Iranian supplies, gas would have to be diverted from more distant fields in central Asia.

It is unlikely that Iran would carry the dispute to a point where its relationship with Moscow is seriously undermined. Tehran may try to use the trilateral talks issue to extract Soviet concessions on Iranian gas prices.

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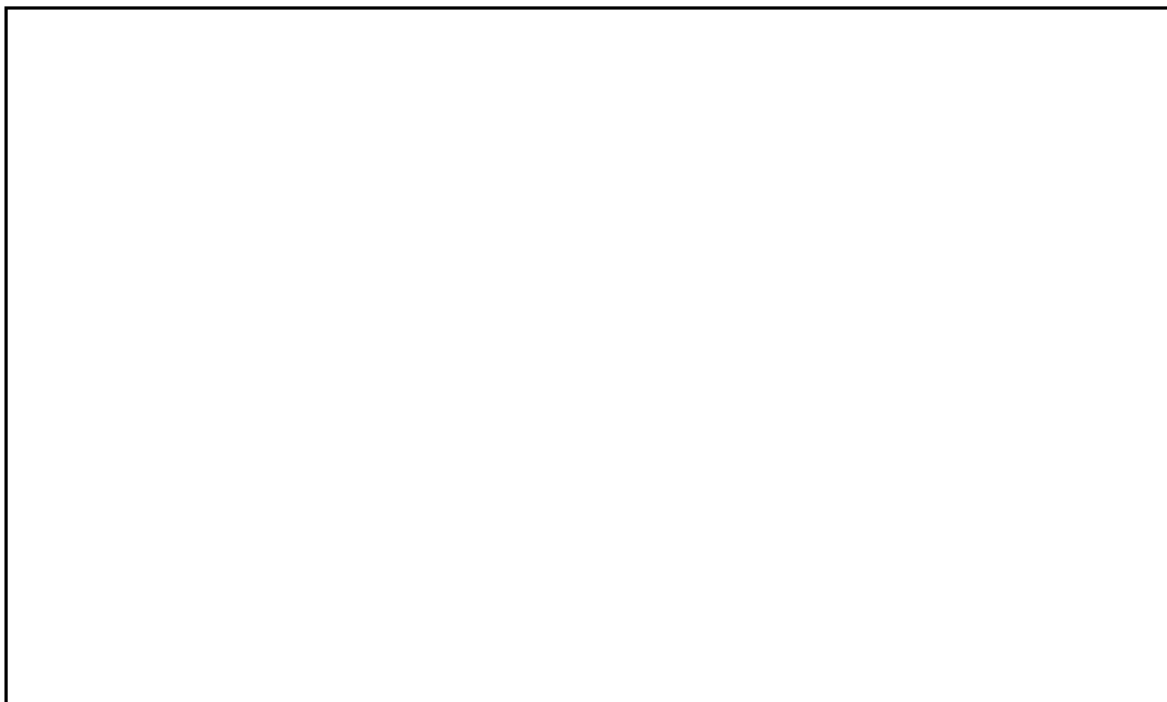
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FOR THE RECORD



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Gold: The price of gold continues its two-week decline, despite approval by the US House of Representatives of legislation that will allow private US ownership. On Thursday, the gold price fell \$7 to a six-month low of \$129 an ounce. Bullion dealers claim the decline is caused by dwindling European confidence in the investment value of gold at a time when interest rates are soaring.

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